

TRUE CORPORATION PLC

No. 68/2021
30 August 2021

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Partially guaranteed	A-
Outlook:	Stable

Last Review Date: 11/05/21

Company Rating History:

Date	Rating	Outlook/Alert
03/10/14	BBB+	Stable
11/06/14	BBB	Alert Positive
11/03/14	BBB	Negative
19/02/14	BBB	Stable
01/10/12	BBB	Negative
21/10/11	BBB	Stable
22/10/10	BBB	Negative
11/04/07	BBB	Stable
25/05/06	BBB	Positive
12/07/04	BBB	Stable
29/08/01	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on True Corporation PLC (TRUE) and the ratings on TRUE's outstanding senior unsecured debentures at "BBB+", with a "stable" outlook. TRIS Rating also affirms the rating on TRUE's partially guaranteed debentures at "A-", based on the credit profiles of both the issuer (TRUE) and the guarantor, Kasikornbank PLC (KBANK) (rated "AA+/Stable" by TRIS Rating*). KBANK's partial guarantee covers 45% of the debentures' outstanding principal and accrued interest.

At the same time, TRIS Rating assigns the rating of "BBB+" to TRUE's proposed issue of up to THB20 billion senior unsecured debentures and the additional greenshoe portion of up to THB5 billion. The proceeds from the new debentures will be used to refinance existing debts and/or fund its working capital needs.

The ratings reflect TRUE's strong business profile as a leading integrated telecom company in Thailand, its strong competitive position in both wireless communications and broadband internet services, as well as its satisfactory operating results. The ratings also embed our expectation of the ongoing support TRUE receives from the CP Group, its major shareholder, and China Mobile International Holdings Ltd. (China Mobile), as a strategic partner.

However, the ratings are weighed down by TRUE's huge debt burden stemming from the required capital expenditures for network expansion and scheduled payments of spectrum licenses. The ratings also take into consideration the fiercely competitive marketplace and the lingering effects of the Coronavirus Disease 2019 (COVID-19) pandemic.

TRUE's operating results for the first half of 2021 remained satisfactory and in line with TRIS Rating's expectation. Despite the prolonged COVID-19 outbreak, TRUE arrived at THB69.2 billion in total revenue, a slight increase of 0.7% year-on-year (y-o-y). Service revenues, excluding interconnection charges (IC), were THB53.5 billion, backed by strong operating performance in the broadband internet business.

The broadband internet business continues to grow, bolstered by increasing demand for home internet access. As of June 2021, its broadband internet subscribers reached 4.4 million, up 0.206 million subscribers from 2020. Revenue from broadband internet service in the first half of 2021 totaled THB14.5 billion, up by 10% y-o-y. We anticipate TRUE to continue to see sound momentum throughout 2021.

However, the prolonged COVID-19 pandemic, the government's tightened outbreak containment measures, as well as softening consumer spending have affected part of TRUE's businesses. Service revenue from cable television (TV) services fell by 5.4% y-o-y to about THB5 billion, due to the absence of entertainment and live-sport events as well as lower consumer spending in the hotel segment.

As of June 2021, TRUE's wireless communications service under the "TrueMove H" brand had 31.7 million mobile subscribers, up from 30.6 million subscribers at the end of 2020. Despite intense competition, TrueMove H gained subscribers both in the prepaid and postpaid segments and maintained

its position as the second largest wireless telecommunication service provider in Thailand, holding a 33.7% subscribers market share. In the first half of 2021, TrueMove H generated service revenue, excluding IC, by THB40.1 billion, relatively flat from the same period of the previous year. Average revenue per user (ARPU) tended to decline, aligning with the industry, due to the softening economy and intense competition, especially in the prepaid segment. Blended ARPU for the second quarter of 2021 dropped to THB209, from THB216 in the final quarter of 2020.

For the first half of 2021, TRUE's earnings before interest, taxes, depreciation, and amortization (EBITDA) were THB30 billion, with an EBITDA margin of nearly 43%. The profit margin rose from 40% in the same period of the previous year, driven by its cost control measures, lower selling expenses, and productivity improvement. Funds from operations (FFO) were THB20.4 billion.

TRUE's credit ratings have been constrained by its highly leveraged financial risk profile. As of June 2021, its interest-bearing debt stood at about THB252.8 billion while adjusted net debt was around THB415.5 billion. The adjusted net debt to net capitalization ratio was 82%. The adjusted net debt to EBITDA ratio was 7 times. The FFO to adjusted net debt ratio was 9.6%. Over the next three years, we expect TRUE's leverage to remain high, led by the large capital expenditures required for network investments and scheduled license fee payments. However, the license payments, which reached their peak last year, are gradually declining. A large part of the debt coming due in the next 12-18 months is expected to be refinanced.

As of June 2021, 48% of TRUE's consolidated debt was at subsidiary level and was unsecured. Its priority debt level is less than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria". We view its unsecured creditors are not significantly disadvantaged with respect to the priority of claim against its assets. In effect, we maintain the ratings on TRUE's senior unsecured debentures at the same level as its company rating.

RATING OUTLOOK

The "stable" outlook embeds our expectation that TRUE will sustain its strong market position and deliver satisfactory operating performance in its core businesses. We also expect TRUE to receive ongoing support from the CP Group and China Mobile.

RATING SENSITIVITIES

The ratings could be downgraded if TRUE's operating performance deteriorates materially, pushing the adjusted FFO to debt ratio to fall below 5% on a sustained basis. A rating upgrade is unlikely in the next 12-18 months, given TRUE's debt-heavy capital structure. However, an upgrade could occur if TRUE significantly improves its profitability and capital structure.

There are still a number of ongoing litigations that will likely take time to resolve. A downward revision to the ratings could occur if there are new developments on these pending legal issues that suggest potential material adverse effects on TRUE's financial profile.

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

* *The rating assigned to KBANK is based on public information which TRIS Rating believes provides a sufficient basis for the assessment of credit profile of KBANK. The rating is assigned without participation from KBANK. The rating on KBANK stands at "AA+" with a "stable" outlook. The rating reflects the bank's competitive position as the second-largest commercial bank in Thailand by assets as well as its well-diversified portfolio, strong capital position, and above-average profitability. The rating also takes into consideration its superior funding and liquidity profile. However, the rating is constrained by its relatively high exposure to the small and medium enterprise (SME) segment, which poses a relatively high asset quality risk compared with other loan segments during the economic downturn.*

True Corporation PLC (TRUE)

Company Rating:	BBB+
Issue Ratings	
TRUE210A: THB3,360 million senior unsecured debentures due 2021	BBB+
TRUE221A: THB12,246 million senior unsecured debentures due 2022	BBB+
TRUE221B: THB100 million senior unsecured debentures due 2022	BBB+
TRUE224A: THB5,922 million senior unsecured debentures due 2022	BBB+
TRUE225A: THB300 million senior unsecured debentures due 2022	BBB+
TRUE227A: THB945 million senior unsecured debentures due 2022	BBB+
TRUE228A: THB5,799.10 million senior unsecured debentures due 2022	BBB+
TRUE228B: THB830 million senior unsecured debentures due 2022	BBB+
TRUE232A: THB4,330 million senior unsecured debentures due 2023	BBB+
TRUE232B: THB2,875 million senior unsecured debentures due 2023	BBB+
TRUE237A: THB6,394.60 million senior unsecured debentures due 2023	BBB+
TRUE239A: THB4,800 million senior unsecured debentures due 2023	BBB+
TRUE23NA: THB7,438.90 million senior unsecured debentures due 2023	BBB+
TRUE245A: THB4,415.50 million senior unsecured debentures due 2024	BBB+
TRUE248A: THB11,841.60 million senior unsecured debentures due 2024	BBB+
TRUE240A: THB1,325 million senior unsecured debentures due 2024	BBB+
TRUE24NA: THB4,268.70 million senior unsecured debentures due 2024	BBB+
TRUE251A: THB3,994.20 million senior unsecured debentures due 2025	BBB+
TRUE252A: THB4,207.70 million senior unsecured debentures due 2025	BBB+
TRUE258A: THB650 million senior unsecured debentures due 2025	BBB+
TRUE25NA: THB2,486.60 million senior unsecured debentures due 2025	BBB+
TRUE261A: THB7,130.30 million senior unsecured debentures due 2026	BBB+
TRUE262A: THB3,865.20 million senior unsecured debentures due 2026	BBB+
TRUE26NA: THB5,805.80 million senior unsecured debentures due 2026	BBB+
TRUE272A: THB6,636.60 million senior unsecured debentures due 2027	BBB+
TRUE22NA: THB8,330 million partially guaranteed debentures due 2022	A-
Up to THB20,000 million senior unsecured debentures and additional greenshoe portion of up to THB5,000 million due within 7 years	BBB+
Rating Outlook:	Stable

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